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SUBJECT: CPM POLITBURO PLANS MORE OPPOSITION TO ECONOMIC REFORMS

¶1. (SBU) Summary: September 12-13, the Communist Party of India-Marxist (CPM) Politburo met in Calcutta to discuss its progress since the party's 18th Congress in 2005 and aspects of the GOI's economic reforms that the CPM intends to oppose. The CPM Politburo plans to force a change in the Special Economic Zones (SEZ) act, believing the present law permits too much land being given to the private SEZ developers for property speculation. The CPM will also contest the GOI's decision to allow importation of wheat and other essential commodities. The CPM drafted a policy paper opposing lifting the cap on Foreign Direct Investment (FDI) in the insurance sector. Still confident from its successes earlier this year in the Kerala and West Bengal state assembly elections, the Politburo outlined plans to expand its influence other states. The effort to rollback or block economic reforms, ostensibly based on ideological commitment, also protects Indian domestic corporate interests. End Summary.

¶2. (SBU) CPM contacts provided post with a read-out on the initiatives and policy positions discussed by the CPM leadership at the recent Politburo meeting in Calcutta. A few notable points included: the CPM would lobby the GOI to support Venezuela's candidacy for a rotating seat in the U.N. Security Council; India's differences with Pakistan should be resolved through dialogue; recent terrorist attacks in Mumbai and Malegaon should be investigated; the party would send representatives to express solidarity with the victims in those areas; however, anti-terrorism efforts should not follow the USG's lead. In addition, the CPM's Uttar Pradesh state committee will meet mid-October to discuss the party's strategy for that state's upcoming legislative assembly elections and provide suggestions to a subsequent Politburo meeting. Finally, the CPM identified states such as Maharashtra, Tamil Nadu, Andhra Pradesh and Jharkhand where the party can expand outside its traditional strongholds of West Bengal, Kerala and Tripura.

¶3. (U) On September 14, CPM General Secretary Prakash Karat spoke at the Federation of Indian Chambers of Commerce and Industries (FICCI) - Eastern Regional Council on the subject of an "Agenda for Inclusive Growth" and further elaborated details of the Politburo's positions. Karat agreed that while India needed a high rate of economic growth, the emphasis should be on

more inclusive growth, which involved four elements: agriculture development, employment generation, enhanced social justice and bridging the regional divide. On agriculture, Karat argued that India is facing an agrarian crisis as evidenced by reportedly 100,000 farmer suicides between 1993-2003. To alleviate this crisis, public investment in agriculture should be increased to counterbalance the perceived decade-long neglect of the agricultural sector. The CPM opposes the importation of wheat and other grains as undermining the domestic farmers. On increasing employment, Karat's solution was to link agriculture to industry and gave the example of West Bengal which is the highest vegetable producer in India but which has no food processing industry. With regard to social justice, Karat felt that the commercialization of higher education was making exclusive "enclaves" for the rich and there was a need to regulate fees being charged by private institutions as well as to refocus on primary education.

14. (SBU) Karat called for policy measures to counter the increasing regional divide between more rapidly developing and stagnating states. He felt that the GOI Special Economic Zone (SEZ) policy would further accentuate the divide. He observed that many of the planned SEZs were concentrated in five western and southern states where much of India's economic development was already occurring. Karat also questioned the reported structuring of the SEZs with 25 percent of the SEZ land being used for actual industry and the remaining 75 percent for the private investor to use for property development to help finance the SEZ infrastructure. He argued that the proposed SEZs looked like speculative real estate scams. He suggested the adoption of the "Bengal" model of SEZs which would permit use of 25 percent of the land for infrastructure, 50 percent for industry and processing, and the remaining 25 percent for property

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development. Speaking with ConGen after his remarks, Karat said that the CPM would ask the GOI to review its SEZ policy before approving additional SEZs. (Comment: In an apparent double standard, West Bengal's SEZs, being already approved, would go forward as planned. End Comment.)

15. (SBU) The CPM and its left allies have also submitted a note to the ruling United Progress Alliance (UPA) opposing the raising of the FDI cap in insurance from 26 to 49 percent. The CPM claims that foreign insurance companies have not been profitable in India, reflecting a lack of efficiency and service. It also questioned the reputation of some of the insurance companies, noting that Prudential Financial Services is being investigated in the U.S. for falsifying documents. In addition, the CPM disagrees that the insurance sector will help channel investment into infrastructure.

16. (SBU) ConGen asked Karat whether West Bengal's economic reforms and efforts to seek private investment were consistent with the national CPM's position. Karat responded that the state government's economic policies were compatible with the views of the CPM. He said the CPM supports private investments in new airports, and agreed on privatization of loss-making public sector units. Karat claimed that his party accepts that a mix of private and public sector is required for economic growth, adding that the party reacts to prevailing conditions set at the national and international levels. On the issue of foreign investment in education, Karat said the subject was being discussed at the level of the World Trade Organization (WTO) and within the framework of the General Agreement on Trade in Services (GATS) and that the CPM does not have an articulated position.

17. (SBU) Ostensibly the Politburo's agenda, Karat's remarks to FICCI and comments to ConGen reflect anti-reform positions based purely on leftist ideology. However, the CPM is also influenced by domestic corporate concerns. The CPM's anti-reform positions protect the interests of key business supporters and corporations. Karat's conversation with ConGen at the FICCI event was interrupted by local real estate developer Harsh Neotia who objected that the SEZ policy allowed SEZ developers to build houses, schools and other facilities and to sell the properties tax free. Neotia said people working in the SEZs could simply purchase properties on the local economy. Left unsaid was the fact that Neotia earlier made his fortune developing housing on free land he received from former West Bengal Chief Minister Jyoti Basu. In turn, Neotia is widely considered to be a significant financial backer of the state CPM.

18. (SBU) The CPM's objections to lifting the 26 percent cap to FDI in the insurance sector, are similar to earlier objections raised by ITC CEO Y.C. Deveshwar to Treasury Undersecretary Timothy Adams during Adams' May visit to Calcutta. Deveshwar is the only member of the CEO Forum in East India and ITC is the only large Indian corporation with headquarters in Calcutta. While not discussed at the Politburo meeting, the CPM has opposed FDI in large-scale retail as well, supposedly out of concern for potential job losses in the unorganized, small-scale retail sector. However, the GOWB is permitting Reliance Industries Limited (RIL) and the RPG Group to establish large retail operations modeled on foreign retail companies.

19. (SBU) Comment: Ideology aside, the CPM's agenda is designed to expand the influence of the party at the state and national level. Its opposition to economic reform measures appeals to Indian corporate supporters and its call for "public investment" in the agricultural sector cultivates votes in CPM's rural base (with more unsustainable giveaways to poor farmers, and without fundamental restructuring of the economic conditions that create rural poverty.) Pressuring the Congress and UPA to implement "inclusive" growth policies also serves to accentuate divisions within the coalition between the Nehruvian old guard that

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retains a fondness for Socialism and the reformers seeking market-oriented policies. In this calculus, the CPM's old ideologies offer new opportunities for promoting party growth and influence.

JARDINE